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Meeting the challenges of globalisation requires an enhanced cooperation between  
the ESS and the ESCB

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# Meeting the challenges of globalisation requires an enhanced cooperation between the ESS and the ESCB

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**Abstract.** International cooperation in the area of statistics is crucial to face the challenges of an increasingly globalised world. Since a very large share of cross-border transactions of EU-countries occurs within the EU, the existing European statistical setting (EU and ECB legal acts, together with effective coordination bodies), clearly facilitates this cooperation. Furthermore, statistical authorities must strive to minimise the costs for respondents by sharing already existing information to the extent possible and by looking for new collaboration models to collect data from multinationals. This paper addresses some of these issues.

## 1. Introduction

In his keynote speech at the third ECB Conference on Statistics “Financial Statistics for a global economy”, **Nouriel Roubini**<sup>[1]</sup> concluded that “*There is a serious need for better financial statistics in an increasingly globalised world. There is a significant global public goods nature of such statistics in a world where cross-border financial transactions are becoming more and more important. Thus, there is a need for greater cooperation between national and international authorities that collect and compile such statistics; greater sharing of information is essential even if, often, national authorities are somehow territorial about sharing such economic and financial data and information with foreign and international authorities. There are also, of course, complex issues of the relative costs and benefits of greater financial statistics and who should be paying for such costs. But the need for better data to capture financial globalisation is undeniable and should be on the agenda of international economic and financial cooperation.*” ECB **President Trichet**<sup>[1]</sup> also noted, in his closing speech, that “... *euro area statistics lie at the heart of the ECB’s monetary policy-making. At the same time, these statistics are embedded in and affected by a globalising world. The key to meeting the challenges this poses lies with further enhanced international cooperation among statistics compilers.*”

This paper outlines a few possible lines of enhanced collaboration between the European System of Central Banks (ESCB) and the European Statistical System (ESS). While international cooperation is also needed to tackle challenges such as growing users' demands for statistics, rapid financial innovation, increasingly scarce resources available to the statistical functions, the need for a better communication with the users and the public at large, and the political pressure to limit the statistical burden on businesses, this paper concentrates on the impact of globalisation on the statistical functions in the EU.

## 2. **Why the need for an EU-wide coordination**

In principle, compiling both national and European economic and financial statistics in a globalising economy requires a world-wide cooperation. However, there are at least two reasons why a separate, more intensive EU-wide coordination is indispensable. First, a very large share of cross-border transactions of EU countries occurs within the EU. The table below shows that more than half of EU countries' cross-border transactions in goods, services and foreign direct investment (FDI) take place within the EU.

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### **Share of intra-EU transactions in total cross-border transactions of EU countries** *Percentages in 2006*

Goods exports	67%
Goods imports	63%
Services exports	56%
Services imports	59%
Outward FDI	70%
Inward FDI	75%

Source: ECB calculations based on ECB and Eurostat data

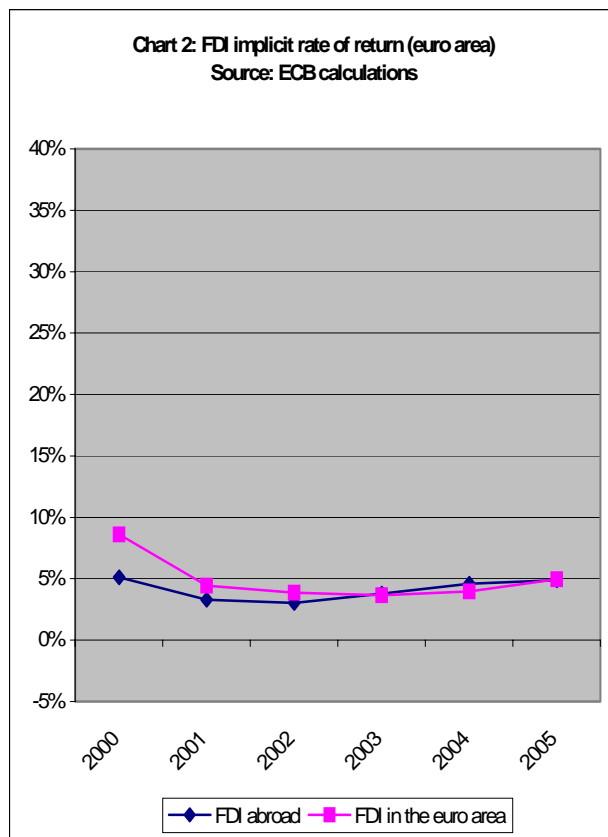
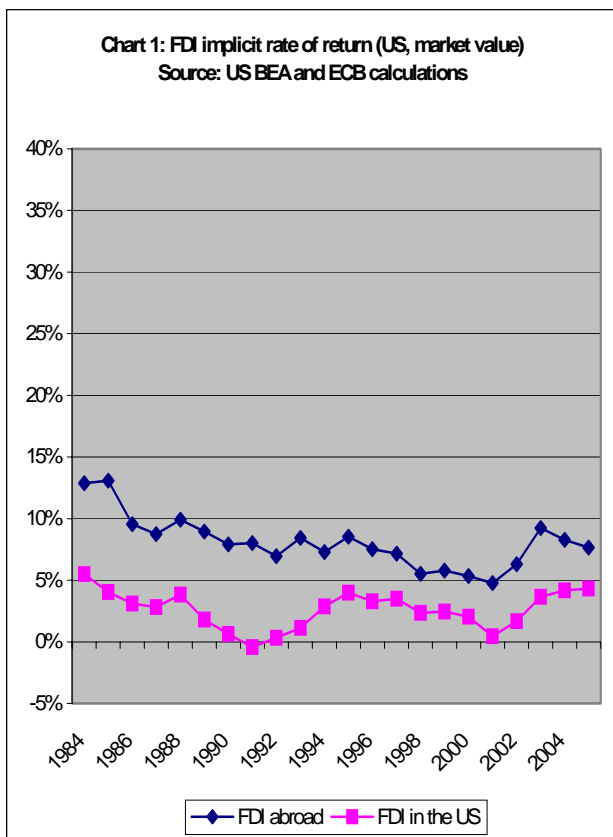
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Secondly, the statistical coordination in the EU is much more advanced than elsewhere in the world, backed by EU Council and ECB legal acts and by coordination bodies like the Statistical Programme Committee (SPC), the ESCB's Statistics Committee (STC) and the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB).

## 3. **Activities of global players can affect macroeconomic results: the case of transfer pricing**

This section serves to illustrate how globalisation affects macroeconomic statistics by describing the case of transfer pricing and other activities by multinationals aimed at shifting profits to low tax jurisdictions. Indeed, recently much attention was paid to the peculiarity that the US seemingly has a positive income balance in the balance of payments (b.o.p.) while being a large net debtor to the rest of the world. The US current account has recorded deficits since 1982, with the exception of

1991. Despite its substantial deterioration of the net international investment position (i.i.p.), the US income balance has recorded surpluses for all years since 1982. This is mainly because the overall implicit rate of return on US FDI abroad is continuously and considerably higher than that on the FDI in the US (see Chart 1). Chart 2 shows that this divergence does not occur for the euro area, which earned broadly the same rates of return on inward and outward FDI since 2001.



Various explanations have been put forward for the puzzling link between US FDI stocks and the related income. One explanation has been that taxation excess returns on US direct investment abroad are the outcome of transfer pricing by multinational corporations (concerning intra-group transactions in goods and services), through which they shift profits to low-tax countries. Those practices shift transactions from the goods and services account to the income account and tend to deteriorate the current account balance for high-tax countries (and improve it for low-tax countries).

Cross-border transfer pricing also has an asymmetric impact on assets and liabilities because affiliates located in high-tax countries tend to have an artificially higher share of the group's working capital and debt. Transfer price activities can be especially hard to detect if they are related to intra-firm transactions in services such as software licences, which have a substantial production cost but whose usage cost is close to zero. Furthermore, the implicit rate of return is particularly affected by transfer pricing between two sister affiliates: one located in a high-tax country and another located in a low-tax country. In that case, as no FDI relationship exists between the sister

companies, transfer pricing is not neutralised in the income account of the affiliates aggravating the impact on the current account balance of those countries.

All this evidence points in the direction of a thorough reflection on the recording of multinational transactions and positions in euro area and national external statistics, and the related organisation of the data collection and the compilation of aggregate statistics. In this context, Eurostat has organised pilot studies to assess the feasibility of harmonised foreign affiliates statistics at the European level, which has been supported by the ECB<sup>[2]</sup>. Another first step would be to collect and publish separate data for intra-group cross-border transactions of multinationals. In addition, the ECB (DG-Statistics) is participating in groups set up by Eurostat in this field, namely a task force on activities of multinationals affecting national accounts and the EuroGroups Register.

#### 4. **How to address the challenges of globalisation?**

The revised Business Registers Regulation requires the creation of a unique European register, the EuroGroups Register of all resident and multinational enterprise groups, which is a common database with information at truncated and global level, intended to harmonise and develop various statistics related to globalisation. Eurostat and the ECB have increased collaboration in this field, not only because of the ESCB's interest in sharing the data set in the future Register, but also because of its expertise related to the financial sectors and the vital potential contribution of the ESCB, as most multinationals have both non-financial and financial units at present (including financial vehicle corporations). While the former are typically captured in the business registers of the NSIs, NCBs have comprehensive and reliable lists on monetary financial institutions and are setting up such lists for financial vehicle corporations. Besides, the essential consistency of financial and non-financial accounts requires that at least the same units are distinguished.

Some cooperation initiatives at national level between the NSI and the NCB are worth mentioning. The *Oesterreichische Nationalbank* and *Statistics Austria*, for example, have agreed on the maintenance and use of a highly integrated business register. Both institutions use the data contained in the Austrian Commercial Register as a basis, which is then incorporated into the respective business registers. Both institutions also collect additional data from entities that are not recorded in the Austrian Commercial Register. These processes are based on an arrangement that prevents gaps or overlaps in the work done by the two institutions and ensures complete coverage of all business in one of the two registers. A group of experts from both institutions solves any borderline cases arising.

It may be quite beneficial to both NSIs and NCBs to also apply this good practice, that is to develop a common NSI/NCB business register for statistical purposes (covering all institutional and establishment units at the national level), ideally complemented by a unique business identifier. This may entail setting up a single infrastructure and a governance structure for its maintenance and access by both institutions. The actual distribution of tasks would be decided at the national level but, for example, the NCBs could be responsible for the financial corporations' component of the common register, while the NSIs could be in charge of the non-financial corporations' part of the register, and as well for the household firms and private non-profit institutions. Besides, the experience of the ESCB with the so-called RIAD (Registers for institutions and assets database), which contain e.g. all banks and investment firms across the EU in a harmonised manner, confirms that setting up a common European register is effective and efficient.

A wider exchange of micro-data, for statistical purposes only, would also greatly enhance the accuracy of external statistics and reduce the (respondents) costs of compiling them. The exchange of those data across EU NSIs and NCBs would be particularly beneficial as cross-border transactions and positions anyhow affect the statistical authorities in two countries. Typically, such cases can be found in FDI, trade and travel statistics. Ultimately, it may not be ruled out that the collection of such data is done more efficiently in only one of the countries involved, owing to the characteristics of the population of companies and existing regulatory frameworks. For example, inward foreign direct investments may be regulated and controlled, or at least promoted, by a governmental agency. Or, in the case of trade, the population of exporters may be more concentrated than that of importers, easing the data collection. Concerning travel, governments may be keener to finance surveys on incoming tourism than on the transactions of their residents abroad.

Of course, these considerations assume that the legal impediments that still prevent such an exchange of information across authorities and across countries will be removed and that practical solutions can be found to exchange information without endangering confidentiality (see for example the ECB Confidentiality Guideline<sup>[4]</sup>). Removing these legal impediments will be one of the key areas in the review of the basic legal framework for the ESS and the ESCB, respectively the Council Regulation (EC) 322/97 concerning Community statistics for the European Statistical System and the Council Regulation (EC) No 2533/98 of 23 November 1998 concerning the collection of statistical information by the European Central Bank.

Globalisation increases not only the complexity of compiling national statistics, but also the relevance of supranational statistics, which then cover a reality that is more similar to the traditional "closed" economy. This has been illustrated by Sinikka Salo for the case of Finland.<sup>[4]</sup> She

demonstrated that the national accounts of Finland may be distorted by recording the (reinvested earnings on) FDI of a large Finnish multinational as Finnish income and assets, while the equity of this multinational is largely foreign-owned and the retained earnings on this portfolio investment are not subtracted from gross national income, saving and current account surplus. *A fortiori*, this applies to the euro area, which has a single monetary policy and is characterised by increasingly integrated (financial) markets. For that reason, the recent inaugural release of quarterly euro area accounts is a very substantial milestone in the history of European statistics. Moreover, their comprehensiveness and consistency are almost unparalleled in the world. All this would not have been possible without the crucial involvement of NCBs and NSIs, in addition to the close cooperation between Eurostat and the ECB. It may be noted that the consolidated euro area balance of payments is the basic source for the so-called 'rest-of-the-world account' of the quarterly sector accounts. If only because of this consolidation, the euro area accounts cannot be equal to the sum of the contributions of the Member States.

Traditionally, the compilation of European statistics has been based on the aggregation of all (13 or 27) national results. However, over the last few years the cooperation has developed further in a number of areas. For example, it may not anymore be needed that each and every statistic is compiled (with the same timeliness) by the relevant authorities in each and every country, including small countries. Since the compilation of statistics is characterized by quite substantial economies of scale, the feasibility of a pooled collection and production of European statistics in a network needs to be further assessed. The development by the ESCB of the Centralised Securities Database (CSDB) is a case in point. The CSDB serves to cope with the increasing difficulty and cost of collecting purely national statistics on cross-border portfolio investment. Therefore, a database has been set up that contains all individual securities, either issued in the euro area or issued elsewhere in the world but potentially held by euro area citizens. The quality of this database is managed by a network that involves EU NCBs and some NSIs. Eventually, it may cater for a very efficient, simultaneous compilation of both EU/euro area statistics and national statistics that are all mutually consistent. It will bring important savings to the burden of reporting agents, who do not anymore need to report aggregate data on securities. The setting up of this database has also required the sharing of some confidential information among the ESCB and with some NSIs.

Finally, globalisation can only be analysed in a meaningful way if the concepts, definitions and classifications underlying the statistics are standardised among EU NSIs and NCBs. This requires an updating process of the ESA95 that involves both constituencies and that maintains a full consistency between this new standard and the Balance of Payments Manual applied in the EU. The joint work of the ESS and the ESCB in this revision may be based on the Memorandum of

Understanding between Eurostat and the ECB and on an appropriate involvement of the CMFB. Only in this way it can be ensured that the ESCB will continue to use concepts, definitions and classifications that are fully in line with the ESA. In fact, at present, the ESA subsector S.121 ‘Central bank’ plus the subsector S.122 ‘Other MFIs’ completely coincide with the MFI sector for statistical purposes as defined by the ECB. In the future SNA/ESA, both financial and non-financial holding corporations may be classified as financial corporations, and this makes the ESS/ESCB cooperation in the revision of ESA95 all the more important. Based on this cooperation, a harmonised and jointly maintained and accessible single metadata repository could be set up. This repository could contain the criteria to identify and classify units and all economic and financial concepts (based on the ESA).

#### 4. **Concluding remarks**

In an increasingly globalised environment, international cooperation in the area of statistics becomes more important too. Furthermore, statistical authorities must strive to minimise the costs for respondents by sharing already existing information to the extent possible, while maintaining very strict confidentiality standards. Globalisation also entails looking for new collaboration models to collect data from multinationals, if only because the current (national) external statistics may be distorted by tax arbitrage. Besides, small open economies can hardly be described in a meaningful way without embedding this description into the statistical representation of a larger economy like the euro area. This requires that statisticians contribute to overcoming remaining political and legal obstacles that still prevent a more intensive data sharing both within and across countries and across statistical systems. Whereas globalisation complicates the compilation of national statistics and also increases the relevance of supranational statistics particularly in those fields where the decisions are now made at the euro area level, the collection of euro area statistics should continue to benefit from the enormous statistical expertise available in the NSIs and the NCBs.

#### **References**

<sup>[1]</sup> “Financial Statistics for a global economy”, Third ECB Conference on Statistics, ECB, 4/5 May 2006 ([http://www.ecb.int/press/pr/date/2007/html/pr070215\\_1.en.html](http://www.ecb.int/press/pr/date/2007/html/pr070215_1.en.html)), of which:

- Keynote speech by *Nouriel Roubini* (Professor of Economics and International Business, Stern School of Business, New York University) under the Session “Are financial statistics good enough to capture globalisation?”
- Concluding remarks by *Jean-Claude Trichet*, President of the ECB



[2] “ECB Opinion of 31 May 2005 at the request of the Council of the European Union concerning a proposal for a regulation of the European Parliament and of the Council on Community statistics on the structure and activity of foreign affiliates”

([http://www.ecb.int/ecb/legal/pdf/c\\_14420050614en00140015.pdf](http://www.ecb.int/ecb/legal/pdf/c_14420050614en00140015.pdf))

[3] “Guideline of the ECB of 22 December 1998 concerning the common rules and minimum standards to protect the confidentiality of the individual statistical information collected by the ECB assisted by the national central banks (ECB/1998/NP28)”, OJ L 55, 24.2.2001, p. 72

([http://www.ecb.int/ecb/legal/pdf/en\\_ecb\\_2000\\_12\\_ecb\\_1998\\_np28.pdf](http://www.ecb.int/ecb/legal/pdf/en_ecb_2000_12_ecb_1998_np28.pdf))

[4] “Statistics and their use for monetary and economic policy-making”, Second ECB Conference on Statistics, ECB, 22/23 April 2004 (<http://www.ecb.int/press/pr/date/2005/html/pr050311.en.html>), of which:

- Paper delivered by *Sinikka Salo* (Member of the Executive Board of Suomen Pankki/Bank of Finland), entitled “Policy uses of and future developments in balance of payments statistics: some European perspectives”